

Operations and General Aviation Committee
Analysis of current GA status at ILM
June 2021

The Operations and General Aviation Committee consists of Airport Authority members, Nick Rhodes, Harry Stovall and Spruill Thompson. The Mission of this committee is to analyze and assess the current condition of the General Aviation Community at ILM and make recommendations for improvement.

This committee convened in response to complaints from the GA community regarding the price of hangar space as well as the price of fuel at ILM. In order to obtain an objective understanding of the situation, the committee members conducted multiple meetings and interviews with the following:

The leadership of the ILM Pilots' Association
Individual members of the GA community
Construction companies in the local area
Mr. Richard Formo, General Manager of Modern Aviation
Mr. Howie Franklin, Director of Cape Fear Regional Jetport
Mr. Robbie Stallings of Eastern Aviation Fuels

In order to adequately address these two major topics, we will begin with the cost of Hangar space.

I. Hangar Space

Each of our meetings offered different perspectives and resulting perceptions. The Pilots' Association and the individuals in the GA community seem resolute in their conviction that ILM discounts them as a "class" of customers. They were quick to supply their research that in 2019 ILM experienced 69,106 operations. Their breakdown of this is as follows:

<u>Type</u>	<u>Operations</u>	<u>% of Total</u>
Commercial Air Carriers	22,538	32.7 %
General Aviation	35,138	50.8 %
<u>Military</u>	<u>11,430</u>	<u>16.5 %</u>
Total	69,106	100 %

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The committee has verified these numbers. However, we do believe the GA community represents a much larger proportion of the operations at ILM than the proportionate amount of revenue derived from them. Understanding that GA represents barely a double-digit impact to the ILM budget, we must also recognize the tax base they represent to New Hanover County. The GA aircraft register in and pay taxes in New Hanover County. The annual tax base generated by the GA community is approximately \$ 240,000,000, which equates to annual revenues of approximately \$1,330,000 for New Hanover County, but this tax base does not translate into revenue for ILM. A significant portion of this tax base is derived from the 20 to 30 corporate and private jets, as they are significantly more expensive aircraft than the piston engine planes. We value all of our GA pilots and their aircraft as many of the piston engine pilots of today will be the jet engine pilots of tomorrow.

The meeting with Mr. Howie Franklin of Cape Fear Regional Jetport (CFRJ) proved quite enlightening. All who read this report should understand that Mr. Franklin acknowledges and points out the differences between his airport and ILM. Cape Fear Regional Jetport is a GA airport which is subsidized by Brunswick County and is not required to adhere to all of the “overburden of regulations” imposed on a Primary Commercial Service Airport such as ILM, as designated by FAA.

When asked how he derived his pricing for fuel and hangars, Mr. Franklin smiled and said, “I simply look at your pricing (ILM) and come in just below it”. In actuality, he looks at a 40-year horizon for the value proposition on his hangar development.

With a clear understanding of some differences, we sought to understand how new hangars have been constructed at CFRJ; some by GA pilots who have migrated from ILM. The primary difference is the approach to serving the GA community. With no commercial service, Mr. Franklin said he must provide service and terms that make people want to come to his facility. Hangar construction is structured in two ways:

- Ground Lease for private development of hangars

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- Airport Developed and Owned

The Ground Lease option is structured on a 40-year term at \$ 0.50 per sq. ft. per year. Each 5 years, the rents increase 10%. The lease renews each 5 years for an additional 5-year period, resulting in a total potential lease of 80 years. During the entire lease term, the Tenant is responsible for maintenance and upkeep of the property, so the Airport does not take over a dilapidated property. These are Net, Net, Net leases. The length of term enables people to sell their interest if they so choose.

Likewise, the Airport Developed and Owned option is structured very similarly. These leases are based on a 40-year term at \$ 400 per month. Each 5 years, the rents increase 10%. The lease renews each 5 years for an additional 5-year period, resulting in a total potential lease of 80 years. During the entire lease term, the Tenant is responsible for maintenance and upkeep of the property, so the Airport does not take over a dilapidated property. These are Net, Net, Net leases. If the hangar is not fully subscribed and someone buys in at a later date, they must pay all past due monthly payments to bring the program current and flush so all leases run conterminously and will expire at the same time. The length of term enables people to sell their interest if they so choose.

Mr. Franklin shared that the cost of a 10,000 sq. ft. hangar under normal circumstances could be built for approximately \$ 75.00 per sq. ft. or \$ 750,000. However, the FAA Guidelines require additional safety precautions and “overbuilding” that results in a cost of \$ 120.00 per sq. ft. or \$ 1,200,000. The burden is even more cumbersome on a Commercial Service designated Airport such as ILM.

Discussions with local builders have confirmed the general cost of construction. However, it is important to note that both Mr. Formo and Mr. Franklin have facilities that are currently ramp side and do not require the extension of any ramp area or taxi area in order to access the runways. Depending on where ILM might consider locating additional hangars, some additional cost may be necessary for ramp and taxi areas.

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Meetings with Mr. Formo of Modern Aviation yielded slightly another perspective. He was very complimentary of the ILM Staff and Authority. When asked about the pricing of fuel, Mr. Formo explained the complex supply chain that provides the fuel to Modern Aviation. The discussion of hangar pricing met with an equally compelling response from Mr. Formo. He acknowledges that he currently has 130 planes, most of them piston engines, for his 100 legitimate tie down slots. He is contemplating the expansion of his facility with the addition of more above ground improvements, but the cost is prohibitive, due to the remaining term of his lease.

The conversation addressed the incoming FBO, Marathon as competition. Mr. Formo acknowledged that there may be some loss of business to the new FBO, but he anticipates this will be normal competition and does not anticipate a drastic decline in his business. He believes the wholesale cost of fuel supply will force the retail cost of all fuel at ILM to stay relatively the same. Additionally, he believes the cost of construction for new hangars will result in pricing that is commensurate with current pricing.

Recommendation:

1. We do not need to be in the business of owning hangars as that puts us in competition with our tenants, Modern Aviation and soon to be Marathon Aviation and any private developers, owners, etc. While some airports, subsidized or not, may elect to build hangars that approach presents potential issues for ILM.
2. We do believe we can promote the private development of additional hangars by providing favorable lease terms. Economic lease terms will be at market rates with market rate increases, but we believe extending the length of term will enable people to realize a proper return on their investment. The suggested length of terms are 30 to 40 years with options to renew for 4 or 5, additional 5-year terms. In discussions with the New Hanover County Commissioners, we feel confident that, as long as the Commissioners believe in the direction of the Airport Authority and the Airport Director, they will work with us on lease extensions to accomplish a win/win scenario.

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3. Length of term for existing hangars should be extended, with the requirement that all hangars be properly maintained. We do not want to inherit hangars, or any other assets, with deferred maintenance.
4. In an effort to promote healthy competition and fair pricing, we prefer to allow Marathon Aviation to ramp up and stabilize before opening the door for additional private development of hangars. The practice at ILM is first to invite all GA needs to our the FBO partners on the ILM grounds. If the GA scope of needs cannot be met through the FBO's, then ILM will endeavor to find other suitable arrangements.
5. We should refer to the long-range plan, and make adjustments as needed, to identify the proper location for future hangars.
6. We should investigate the additional ramp, tarmac area that will be required for the future location of hangars and try to obtain funds for this construction in advance of the hangar construction. Perhaps some or all of these funds will come from the proposed infrastructure bill. The location of any new hangars will be in accordance with the long-term strategic plan.

II. Fuel Prices

Overcoming the animosity of the GA community was more of an issue than we realized. However, we believe we have lowered the level of distrust and opened meaningful dialogue. They recognize that jets burn, buy more fuel, and pay more for landing fees, accommodations, etc. than piston engine pilots. This realization separated our analysis into the subcategory of jet vs piston engines. With this understanding, the committee recognized that the piston engine community is the lowest yielding revenue for ILM, yet the most passionate and vocal group. Regardless, the committee pursued the meetings with a commitment to enhance relationship and find a path to resolution.

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According to Robbie Stallings, the piston engine population appears to be dwindling. However, the remaining piston engine pilots are dedicated and will continue to need fuel. There are several reasons that Avgas is so expensive, and it relates to supply and demand. Avgas is the only fuel that contains lead. According to Robbie Stallings, the only place in the world this lead is found is the UK. Refineries must purchase the lead from the UK in order to put it in the Avgas mixture. Due to the lead content, Avgas cannot be processed as other fuels at the refineries. Therefore, refineries must have a dedicated production facility for the mixture, production and waste disposal of the lead byproducts. This is a very expensive proposition and most of the refineries have stopped producing Avgas completely. The ones that continue to produce it are very reluctant, as they fear being targeted in a lawsuit involving fuel that may be contaminated downstream in the delivery process. As mentioned above, the lead prevents the piping of Avgas to locations, so it must be delivered on ships and trucks, adding to the cost.

Recommendation:

1. Since ILM is required to remain neutral and neither help FBO patterns fail or flourish, we must stay out of the fuel pricing discussions. Our FBO Partners price their retail fuel based on the cost of wholesale fuel as well as supply and demand. The best we can do is to try to help the GA community understand that, as a Primary Commercial Service airport, we are prevented from subsidizing the fuel pricing.

This is further addressed in the Grant Assurances #24, for which the Authority must agree, in order to accept any federal funding. In accepting federal grant funds, ILM is required to comply with all grant assurances, including maintaining fees and rental structures for airport services allowing it to be as self-sustaining as possible. All grant assurances can be found in the following link, if you are interested in reviewing. https://www.faa.gov/airports/aip/grant_assurances/media/airport-sponsor-assurances-aip-2020.pdf

III. Self-Service Fueling

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In addition, Mr. Franklin offers self-serve fuel as an amenity for his GA pilots. He acknowledges that he can sell it for less than ILM due to the additional regulations imposed on a Primary Commercial Service Airport, such as ILM.

Many of the GA pilots have requested the self-service fueling concept. After much investigation and discussions with Bill Cherry, former owner of Air Wilmington, as well as Robbie Stallings of Eastern Aviation Fuels, it does not seem that this would be a reasonable service for us to provide. Bill Cherry operated a self-service operation years ago and he shut it down because it was not being used. The cost to establish this service is well north of \$ 100,000.00 before the fuel is ordered. Then the fuel may sit for an extended period of time. This does not even account for the liability coverage required by the FAA.

This is not a business we need to be in, nor do we want to invite anyone else to establish it. In drilling down on the lower cost of fuel in surrounding areas, it has become evident that most places are using fuel as a “loss-leader” to get more operations in their airspace, in an effort to increase their federal funding.

Recommendation:

1. The logical move would be to ask the current and future FBO’s if they would be interested in a self-service fuel station on their leased premises. This should not require an RFP and they are already set up with the proper liability coverages. In addition, they are already buying fuel in sufficient quantities to offer some economies of scale. A standalone self-service fuel station would not generate enough demand to warrant any such bulk purchases, further driving up the wholesale cost.